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**"CRITICAL OBSERVATIONS FROM THE DEAN OF THE CALIFORNIA
LEGISLATURE - #1"**

JANUARY 7, 2003

"THE STATE OF OUR BUDGET FOR THE STATE OF CALIFORNIA - AN EMERGENCY!"

Several weeks ago I received an email from friend Michele Borba urging me to protect education from the 1st round of totaling \$1.8 billion for K-12 education budget cuts proposed by Governor Gray Davis.

I responded by calling to her attention the truth regarding the enormity of our state budget deficit, and advising her that if we were able to hold the K-12 schools cut to \$1.8 billion, it'd almost constitute a miracle.

Michele Borba was shocked to learn the facts regarding the state of our State budget, and urged me to get this word out far and wide - so educators and others would wake up to recognize the reality with which we are coping - the enormity of our budget shortfall.

Her request and then her response awakened me to the lack of knowledge and appreciate our fellow Californians have regarding our situation. It triggered in me a strong desire, even a sense of duty and responsibility, to bring this word out loud and clear - to my colleagues, to the media and to the People of California.

For in fact there is no way in the world for us to grow able to **solve** any of our problems, unless and until we fully and fairly, smartly and strategically, understand and appreciate its reality, own it as our problem and challenge, and then come together and collaborate in formulating the smartest wisest solution we possibly can - for the People and the State of California.

So here is my understanding of the state of our State budget for now and our coming fiscal year - plain and simple. I will not within this statement move further to address priorities and/or options for its solution. It constitutes an emergency - deserving of our full knowledge and appreciate, and thereupon, needful of our smart attention.

It is simplest understood in two stages.

1st - Our fiscal reality last spring and summer - in attempting to formulate our state budget for the fiscal year July 1, 2002-June 30 , 2003:

Last June, for the current and prior fiscal years, we found ourselves \$24 billion short on our state budget (simply to continue our prior year's policies adjusted upwards only for various clientele growth + inflation;

Our political realities then:

- *- Our California Constitution requires that we each year enact a balanced budget.
- *- Our California Constitution requires a 2/3s super-majority vote to pass our annual state budget (we are one of only three states in our nation that requires more than a simple majority for passage of the state budget);
- *- Our California constitutional requirement (enacted as part of Proposition 13) of a 2/3s majority vote to raise any tax;
- *- The Legislature we had then included fewer than 2/3s Democrats - short 1 in our State Senate, short 4 in our State Assembly. The Assembly proved to be the more difficult House in which to gain budget approval – where most of the Republicans identify themselves as "conservative," and reports indicated that those Republicans who were not such, found themselves subject to intimidation by those who were, seeking to persuade them not to vote for the proposed budget;
- *- Our Governor was standing for reelection, and announced he would veto almost any tax increase if we could have got 1 passed;

The outcome of last year's budget battle here:

We managed to pass an allegedly balanced budget for this current fiscal year by:

- 1 - making \$8 billion in program cuts (little if any to K-12 education);
- 2 - increasing taxes \$3 billion; and
- 3 - borrowing around and jockeying our books the other \$13 billion.

It wasn't pretty, it wasn't nice - and we all did it as the best we could accomplish -

- 1 - In light of all our circumstances, our reality;
- 2 - Protecting our K-12 schools & children to the maximum; and
- 3 - Hoping for some miraculous recovery of our economy.

2nd - Our California State budget reality this year:

No such miraculous economic recovery has occurred.

Our Legislative Analyst (our superb objective dependable expert on our state's finances) believes we are facing an additional shortfall for the rest of this year and the coming budget year - amounting to \$21 billion. That is 25% - 1/4 - of our entire State General Fund budget.

The Governor now projects this total to be approaching \$35 billion! That amounts to more than 40% of our entire State General Fund Budget.

Just how large is this budget shortfall? Just what kind and/or level of cutbacks might it take to solve it? We could simply cut everything across the board by 25% - or - up to 40% (if we agree the Governor's estimates are correct).

That could translate into:

1 - firing 1/4 of our K-12 teachers, cutting basic subsistence food grants for needy children and needy senior citizens by 1/4 (all of whom already live on incomes below the Federal poverty line),

2 - closing the doors of our California universities and colleges to 1/4 of the students they now educate,

3 - reducing the health care for ailing aging Californians and sick needy children by 1/4, etc., etc., etc.

Were we to close all our state universities & all our state prisons, we'd save less than \$11 billion (only 1/2 to 1/3 of what we need)! The scale of the cuts needed are daunting. Looking for specific ways to reduce the budget is no less daunting. Consider the following budget decision realities:

*- Education (K-12 + higher education altogether) constitutes more than 50% of our State's General Fund budget. Holding K-12 harmless from cuts therefore doubles the magnitude of cuts elsewhere needed. That is why I advised Michele Borba I would be surprised if by some miracle we are able to hold the K-12 budget cut to as little as the \$1.8 billion already proposed by Governor Davis.

*- More than 25% of our State General Fund budget goes to subsistence grants and health care for poor kids & their families, and/or for needy elderly & disabled Californians. **The average aid payment plus food stamps for a family of three is already down to approximately 80% of the Federal poverty level.**

*- Debt service (legally required for paying off our State bonds) amounts to nearly \$ 3 billion annually - which legally we can not cut into at all;

*- Of the \$26.7 billion in health and human service funding, the following constraints make major cutting difficult to impossible:

1 - Federal law **REQUIRES** states to spend 75% of what they spent on welfare payments to poor families in 1994-95; California already spends **ONLY** this minimum (\$2.7 billion). If we

cut ANY money below this requirement we ARE threatened with forfeiting loss of ALL our Federal matching funds - \$2.7 billion.

2 - California's SSI/SSP cash grant for aged, blind and disabled Californians costs \$2.6 billion. Any cuts in these cash grants is likely to lead to more persons being institutionalized at higher costs in nursing homes. A person on SSI today gets a average grant of approximately \$750 per month whereas the average cost of a nursing home bed under Medi-Cal is \$3300 per month - more than four times as expensive.

3 - Our foster care/child welfare system costs roughly \$4 billion per year (including adoption assistance services); In-Home Supportive Services costs \$2.6 billion for those at risk of institutionalization. While policy improvements may yield SOME savings, these programs cannot, as a practical matter, be entirely eliminated.

4 - Medi-Cal accounts for \$9.2 billion of our California State General Fund Budget. The kinds of cuts the Governor has already proposed focus on cutting provider rates by 10% and cutting our altogether various optional benefits in the program.

a - The provider rate cut proposed would save the state approximately \$500 million but represents a loss of \$1 billion to providers (doubled by the matching Federal funds also lost). And Medi-Cal providers already receive reimbursements so far below their normal market rate, many providers have already ceased accepting Medi-Cal patients. When that happens, those persons end up going to hospital emergency units, where costs are far higher.

b- 35% of the Governor's proposed Medi-Cal provider cuts would come from nursing homes where the State of California has only recently enacted long needed improvements in nursing care and decent wages for workers therein.

c - Of the optional benefits proposed for elimination by Governor Davis, 77% of the savings comes from eliminating adult dental care for our needy senior citizens. Today Medi-Cal already imposes very severe limits on adult dental care (nothing preventive, no fillings, no teeth replacements except for front four top & bottom teeth).

d - Another 20% of the savings would come from eliminating medical supplies - critical supplies for diabetics, asthmatics as well as contraceptive devices for Medi-Cal recipients.

Any or all of these cuts will almost assuredly lead to later on higher medical expenses in Medi-Cal when impoverished Californians cannot get what they need to stay healthy, leaving them getting ever more sick and costly (for all the rest of us to bear).

Our political realities facing us this year:

1 - A still stagnant economy (the smart venture capital expert I talked with most recently (only last week) advised me he sees no real turn around and recovery coming for probably 4 years);

2 - No gimmicks left to be invented to help us balance our budget;

3 - A far more conservative Republican Caucus in the Assembly (resulting from our latest reapportionment plan), which is proclaiming it is utterly opposed to any tax increase at all, and reportedly adding that it will find opponents in primaries for any Republican Assemblyperson who "dares" to vote for a tax increase.

CONCLUSIONS REGARDING THE STATE OF OUR CALIFORNIA STATE BUDGET AN EMERGENCY

Pulling all that together - I don't see any likely prospect for our getting a balanced budget passed for this coming 2003-2004 budget year.

In my opinion, we have neither the tools nor the political will to do so.

For in fact and in truth there is a core of basic essential public services which the People of California require and expect to continue to be provided, each of which costs money, must be financed. Add to that the dilemma of threatening our own future by failing sufficiently to invest in the healthy growth and development and learning of our children, leading to enormous increased costs (as well as social problems) in our future.

The sooner we get about the business of determining what that set of services constitutes, the sooner we can get clear with the people about what it will cost and lay out the options for how we will sufficiently finance state government until the end of our current economic down cycle. The more we identify those investments which are likely to prove counter-productive regarding increasing costs in our future, the better we can set the parameters and identify the smart balance points in our efforts.

Altogether, that's the State of our State Budget and its crisis facing us now, as we seek to design and enact a balanced budget for upcoming fiscal year 2003-2004.

Certainly that's plenty for each and all of us to consider, chew on, for now.

That's all for now, folks - MORE TO FOLLOW NEXT WEEK!

JOHN VASCONCELLOS
January 7, 2003